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Submitted via email: Offshorecoordination@ofgem.gov.uk

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Consultation on the Early-Stage Assessment for Anticipatory Investment

We refer to Ofgem’s Consultation on the Early-Stage Assessment for Anticipatory Investment issued on 25th May 2023 and welcome the opportunity to respond to the consultation.

Equinor is a global broad energy company, employing over 650 people in the UK. It is the UK’s largest supplier of crude oil and the largest supplier of natural gas, meeting more than 25% of UK demand. It operates three offshore wind farms including Hywind Scotland, the world’s first floating wind farm. Equinor and partners are building Dogger Bank, the world’s largest offshore wind farm. Equinor and partners are developing the Sheringham Shoal and Dudgeon Extension Projects.

Equinor supports Ofgem’s proposal to introduce an early-stage assessment process (ESA) for projects pursuing coordination. We believe that the ESA as proposed, with some amendments, can provide the required clarity and confidence for offshore wind developers seeking to coordinate their offshore transmission solutions.

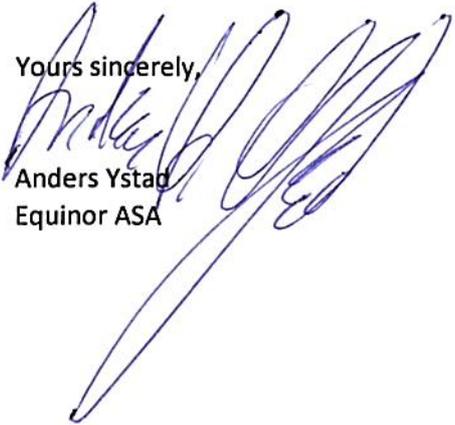
Key areas to highlight:

1. It will be very challenging for the later user to agree that they will assume responsibility for the construction of the coordinated solution should the initial user become delayed.
2. Inclusion of confirmations with firm commitments at ESA stage needs further consideration. Separating therefore the ‘assessment’ and ‘commitment’ components in the ESA may be a better solution.
3. To many projects early approval from Ofgem on the ESA will be essential. We are concerned that the detailed information required by Ofgem will not be available at such an early stage. For projects where the coordinated design significantly differs from the non-coordinated design, it will be time consuming and costly to do FEED studies and get the required information from suppliers on design, cost, and schedule. For these types of projects, it is unlikely that cost within the range indicated by Ofgem (+5%/-10%) can be committed to prior to engagement with suppliers. The ESA need to recognise this. We suggest a two-step model, where Ofgem first approves the coordinated design “in-principle” and in a step two performs the cost-assessment and approves the relevant costs.

We have included our detailed response to the relevant questions in the appendix.

We would welcome the opportunity to present our response to the Consultation in more detail.

Yours sincerely,


Anders Ystad
Equinor ASA

Appendix:

We note there are some slight ambiguities in the questions as listed on page 8 and page 18. Q3 on p8 corresponds to Q4 on p18, Q4 on p8 correspond to Q5 on p18, and Q5 on p8 is similar (but not equal) to Q3 on p18.

Our response is based on the questions listed on p8.

Our Approach to the Early-Stage Assessment

Question 1: Do you agree that the later user should assume responsibility for the construction of the coordinated solution should the initial user become delayed?

Assuming responsibility for the construction of the coordinated by the later user will be very challenging. The later user may not have the means to step in due to constraints such as access to finance, technical competencies, organisational set-up, ownership, etc.

Additionally, the development phase of the initial user's project will be critical. A delayed early-phase project may have some opportunities but a delayed project which is passed FID or has started construction will be even more challenging. Incentivising the initial user to complete the construction according to the agreed schedule, or as a minimum according to the later user(s) schedule, seems a better approach.

Therefore, introducing such a requirement in the ESA confirmation letter would probably introduce a new barrier.

It may be possible to clarify in the commitment letters, if the potential later user agrees that they will assume responsibility for the construction of the coordinated solution should the initial user become delayed. There may be circumstances where the potential later user can or cannot make such commitments. In the latter case, the potential later user would accept their project to be dependent on the progress of the original initial user.

Question 2: Do you have any views on the Draft Early-Stage Assessment Guidance Document?

The ESA cost review will follow the same principles as currently used for offshore transmission cost reviews. This is contained in the Offshore Transmission Cost Assessment Guidance. This seems pragmatic and ensures alignment to the OFTO process but requires that Ofgem consults on all changes to the Offshore Transmission Cost Assessment Guidance and preferably ahead of each tender round. How 'AI cost' is determined in relation to the NG ESO User Commitment for AI (CMP402), as well as it potentially forming the basis for the TNUoS charge (CMP411), needs to be fully understood. It may not be appropriate to use the 'AI cost' as determined from the ESA for both applications as it serves a different purpose.

There can be circumstances where, at the time of the ESA application, it is not necessarily clear who the initial user will be. For example, where two collaborating projects apply in the same CfD allocation round and the outcome of the allocation round influences who will be the initial user. The ESA needs to be flexible to allow for this uncertainty.

Should the projects want to rely on AI then a 'confirmation letter' to Ofgem, which states that the potential later user consents to the AI being made on its behalf by the initial user, as well as accepting any associated User Commitments (UC) by the potential later user, could be an appropriate tool.

Given that the outcome of the ESA may influence the project's ability or desire to collaborate, the timing of this letter with firm confirmations needs further consideration. Projects may require an ESA at an early stage, where no firm commitments can be provided, where the outcome could provide a 'proof of concept'. Separating therefore the 'assessment' and 'commitment' components in the ESA may be a better solution.

For example:

- Maintain the ESA as an early-stage assessment, where the application could include a confirmation letter with non-binding (or 'in principle') commitments from the potential later user.
- Introduce a formal AI application, in which the potential second user provides their firm commitments. This could be combined with a secondary ESA.
- Alternatively, a slimmed down version of the ESA could be introduced to achieve the same goal.

We also emphasize the need for further clarity on the OFTO tender process and how TNUoS charges and cost recovery mechanisms for users of shared transmission assets will work.

Developers may be reserved in issuing an ESA application with full (cost-) details of their project, where it does not control to which extent or timing that certain information may come accessible to the public domain. This may be due to Ofgem's requirement to publish a decision, consultation on the outcome of its assessment, or a request under the 'Freedom of Information Act'. It is important that this confidentiality issue is recognised and that Ofgem provides sufficient comfort that commercial sensitive information will be kept confidential.

Output, Cost Allowances and Material change

Question 3: Do you have any views on what should constitute material change for projects?

Please see question 4.

Question 4: Do you agree with Ofgem's proposed approach to projects which experience material change?

Ofgem proposes that the threshold of materiality for any change should be considered against the potential impact on the needs case and consumer benefits on a project-by-project basis. We support that the responsibility to inform and submit as required any revisions for review to Ofgem should be with the developers of the coordinating projects. Should developers choose not to inform Ofgem of a (material) change to the initial proposal, or where the changes have materially impacted the CBA of the coordinated solution that have not been accepted in any re-assessment, then we believe that Ofgem needs to engage in a dialogue with the developer to assess the additional cost and how it will be considered as part of the Anticipatory Investment.

A mechanism and/or guarantees need to be in place to protect the potential later user from any material changes that may impact the agreed development in the (earlier-) ESA.

Question 5: Do you agree with Ofgem's proposed approach to cost disallowances in Anticipatory Investment? / Q3. Do you agree with Ofgem's approach to reviewing costs in the ESA?

It is important the initial user (and the later user(s)) as well as lenders, can rely on Ofgem's decision letter where the coordinated design has been approved and Ofgem has conducted a cost assessment.

Ofgem proposes to guarantee that allowed costs as reviewed under the ESA (AI costs) are ringfenced and treated as 'allowed costs' at the OFTO cost assessment stage with a 5% allowance for any unforeseen increases and a 10% underspend. If costs increase over this 5% threshold from the amount agreed in principle at the ESA stage, then all costs for the Anticipatory Investment will be subject to the normal cost assessment process. This would apply to the 10% underspend also.

The approach seems reasonable in principle but as indicated earlier, given the ESA for these projects will be performed in an early stage, getting the required information from suppliers on design, cost, and schedule within the range indicated by Ofgem (+5%/-10%) seems unlikely. This would only come after time consuming and costly to do FEED studies which requires extensive engagement with suppliers. The ESA need to recognise this. We suggest a two-step model, where Ofgem first approves the coordinated design "in-principle" and in a step two performs the cost-assessment and approves the relevant costs.